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GOVERNOR BARBOUR'S SPECIAL SESSION CALL
INCLUDES VARIETY OF PRESSING ISSUES

JACKSON, Mississippi – Governor Haley Barbour's official call for a special session of the Mississippi Legislature seeks state incentives for a huge economic development project in DeSoto County, a reduction in taxes for modular housing and financial assistance for cash-strapped local governments on the Mississippi Coast.

In releasing the official call, or agenda, for the special session that begins at 9 a.m. Thursday, Governor Barbour said he will also ask lawmakers approve a project to expand Magee General Hospital. A bill that would have allowed the City of Magee to issue bonds to finance a \$25 million hospital expansion was among several local and private bills that failed in the final days of the 2006 regular session.

"It is important to remain focused

1. Riverbend
2. Tax Credit Bond
3. Amendments to HB 43 and other related transfers to authorize the grants to local gov'ts.
4. Modular Home Tax reduction
5. Using CDL \$ in calculating school millage rates
6. Magee Hospital Local and Private
7. Other potential local and privates

Here are the items that could be on the call:

1. Riverbend

Possibly two bills - a tax rebate bill and a bond authorization. Neely is taking Jay McCarthy to meet with Bubba and Bart on Friday. We need to make sure that we don't just use Bubba because GHB is trying extra hard to keep McCoy and his people in the loop. I've attached the Memorandum of Intent. It summarizes what needs to be in the legislation.

2. Grants to coast cities and counties

This requires multiple pieces of legislation that will be handled by W&M, Finance, and appropriations. The specific steps needed are listed in the other document I sent earlier. It's attached again here.

Tate's office is drafting the GTC Bond authorization. Kevin Upchurch has a draft of the modifications to HB 43 and is working with Tate's office on the fund transfer authorizations. We will need to scrub this closely many, many times.

3. Reducing the modular home tax.

This is pretty straightforward. Joe Blount's language looked fine to me. I sent the summary in a separate email.

4. Local & Privates - definitely the Magee hospital

Even if Doxey doesn't want just the Magee hospital issue, it needs to be on the call. I think we need a new local resolution in support.

5. ??? There might be a school district millage issue. More details to come as I get them. Jason is working on this.

Providing Financial Help to Gulf Coast Cities and Counties

Since Hurricane Katrina, city and county governments in the most heavily impacted areas have suffered financially during a time of increased need for public services. The widespread destruction of homes and businesses along the Gulf Coast has impacted sales and property tax revenue. Although many cities are benefiting from significantly increased sales tax revenue, it is not universal. Moreover, county governments do not receive a share of sales tax revenue.

Since Katrina, the Governor's office has worked closely with the State Treasurer and the Department of Finance and Administration to help South Mississippi governments with their financial needs. DFA has worked with FEMA to administer the federal Community Disaster Loan program, resulting in \$263 million in approved state-guaranteed loans to local governments, school districts, and community colleges. In addition, the State Treasurer worked with the Mississippi Development Bank to create a loan program that made \$148 million available to local governments, school districts, and community colleges. For most, these loans are sufficient to meet the cash flow needs as local economies rebound.

However, there are some cities and counties that are in need of extra help. In consultation with numerous local elected officials, the Governor and State Treasurer propose that the Legislature make approximately \$20 million available of direct grants of no more than \$3 million to city and county governments which have lost more than 25% of their revenues.

What is the source of the \$20 million?

By issuing \$100 million of Gulf Tax Credit Bonds (GTC Bonds) for the purposes of paying the state's existing debt service, \$100 million of funds previously dedicated to debt service will be available to invest over a two year period, at which time the \$100 million will be used to redeem the GTC Bonds. This two year investment window will yield approximately \$10 million.

An additional \$10 million will be available by redirecting the interest earnings of the Hurricane Disaster Reserve Fund. This is the fund to which the Legislature appropriated \$268 million to provide the state share of the match for FEMA individual and public assistance projects.

No General Fund money is required under this plan.

What is a Gulf Tax Credit Bond?

Gulf Tax Credit Bonds were authorized in the federal Gulf Opportunity Zone Act of 2005. Mississippi was specifically authorized to issue up to \$100 million in GTC Bonds. The benefit of a GTC Bond is that the State of Mississippi will not make monetary coupon payments. Instead, the coupon payments are tax credits against federal income tax liabilities. The principal must be repaid within two years after issuance and are general obligations of the state.

Under federal law, at least 95% of the proceeds of any issuance of GTC Bonds must be used to pay principal, interest, or premiums on bonds issued by the State or to make a loan to any political subdivision to pay principal, interest, or premiums on bonds issued by the political subdivision.

To use GTC Bonds, the State of Mississippi must match 1:1 the amount of the issuance to be used for the same purpose of the GTC Bond. For the purposes of this program, \$100 million of the FY 07 appropriation for state debt service will serve as the state match.

The State of Mississippi must issue the GTC Bonds before January 1, 2007, when the authorization expires.

How do coast governments receive money as soon as possible?

Since the earnings created by the sale of GTC Bonds and redirecting the interest on the Hurricane Disaster Reserve Fund will not be available immediately, existing state legislation needs to be modified to make funds available now which will be repaid over the two year period.

In the 5th Extraordinary Session of 2005, the Legislature created the “Emergency Aid to Local Governments” program, which authorized loans to

local governments which demonstrated a loss of more than 50% of their revenues. To fund this and other related programs, the Legislature authorized \$500 million in borrowing authority.

This legislation should be amended to allow loans and/or grants to cities and counties which have demonstrated a loss of more than 25% of their revenues and to allow the Bond Commission (comprised of the Governor, Treasurer, and Attorney General) to approve any grant or loan, with no grant in excess of \$3 million.

Is this enough assistance to coast governments?

The financial situation of cities and counties along the Gulf Coast must continue to be closely monitored. However, it would be unwise to attempt multi-year approaches when the finances of many cities and counties are still murky. Estimates of Katrina's impact on tax revenue have shifted dramatically over the last year at all levels of government and this issue can be revisited if the need arises and as more information becomes available.

What are the specific actions requested of the Legislature?

1. Authorize the issuance of \$100 million of Gulf Tax Credit Bonds, as authorized by the Gulf Opportunity Zone Act of 2005.
2. Appropriate the proceeds of the GTC Bond issuance to fund FY 07 state debt service.
3. Redirect \$100 million of FY 07 state appropriations from the General Fund or the Budget Contingency Fund from debt service to a newly created "Gulf Tax Credit Bond Reserve Fund."
4. Authorize the necessary transfer from the Gulf Tax Credit Bond Reserve Fund to make the principal payments upon maturity of the GTC Bonds.
5. Establish that the corpus of the Gulf Tax Credit Bond Reserve Fund may not be violated without a 2/3 vote of the Legislature.

6. Authorize the transfer of earnings of the Gulf Tax Credit Bond Reserve Fund to the previously established Emergency Aid to Local Governments Fund.
7. Redirect the interest earnings of the Hurricane Disaster Reserve Fund to the Emergency Aid to Local Governments Fund.
8. Amend H.B. 43 of the 2005 5th Extraordinary Session to allow grants not to exceed \$3 million to cities or counties which have demonstrated a loss of more than 25% of governmental fund type revenues.

What is the risk to the State of Mississippi?

By issuing \$100 million of GTC Bonds, the State of Mississippi is assuming a general obligation debt. The corpus of the redirected \$100 million will be deposited into a reserve fund to accumulate investment earnings. This reserve fund must not be violated because these funds will be needed two years later to repay the principal of the GTC Bonds. There is an additional incentive for the state to not violate this reserve fund because without the \$100 million remaining in the fund, there will not be enough investment earnings to fund the local government grant program.

Removing Barriers to Housing on the Gulf Coast: Reducing the Tax on Modular Homes

The number one priority and challenge in Mississippi caused by Katrina is housing. According to data compiled by FEMA, HUD, and SBA, more than 240,000 units of housing were damaged by Katrina statewide, representing 23% of our occupied housing units. Nearly 80,000 units of housing suffered major or severe damage, or were destroyed, approximately 53,000 of which were in the three coastal counties.

Rebuilding our housing stock is a massive undertaking. To rebuild quickly and efficiently, we must not rely on just the pre-Katrina housing solutions. Due to labor supply constraints, the State of Mississippi must encourage alternatives to conventional, site-built, “stick-built” homes. One such alternative is modular housing.

What are modular homes?

“Modular homes” are often confused with “manufactured housing” (also referred to as mobile homes) since they are both “manufactured” in a plant. However, there are substantial differences between the two. Mobile homes are built to the HUD code, which is a national code governing the manufactured housing industry. Modular housing is typically built to comply with the local building codes governing conventional construction, e.g. the International Residential Code. Therefore, the construction of modular housing is virtually the same as conventionally built home and they qualify for conventional mortgage financing.

A modular home is built in modules or sections which are transported to the site. A builder will normally install the foundation and the modules will be lifted in place and fixed to the foundation. Once the modules are installed at the foundation, the builder will complete the completion of the utilities and other finishes.

Modular homes vary in size and price. There are multi-million dollar custom modular homes and there are modular homes designed for more affordable housing.

How does the current Mississippi tax law treat modular homes?

According to the Mississippi Tax Commission (MTC), Section 27-65-17 levies a tax at the rate of 7% on the sale of tangible personal property. This Section also provides reduced rates of tax for certain items, including mobile homes which are tax at the reduced rate of 3%.

The MTC taxes modular home sales at the regular retail rate of 7% since the statutes do not provide a lower rate of tax.

If a homeowner used conventional site-built housing methods, a 7% tax would be paid on the materials and no sales tax would be paid on the labor. However, under the current tax law for modular homes, a 7% tax is owed on materials and labor.

How should Mississippi tax modular homes?

Modular homes should be taxed at the same 3% tax rate that currently exists for manufactured housing. This will more closely match the taxability of a conventional site-built home.

What is the revenue impact to the state?

Since there is very little modular housing currently in Mississippi, there will be a very minimal impact. The Mississippi Tax Commission reports that the State collected \$5.5 million from the sale of manufactured housing in FY 06, but it can not identify existing revenue figures for modular homes since they are taxed under the general sales tax rate of 7%.

However, by removing a financial barrier to modular housing and given the large unmet demand for housing, there is a strong likelihood that more modular houses will be purchased and therefore more tax revenue will be generated.

JACKSON, Mississippi -- Governor Haley Barbour announced today he will call a special session of the Mississippi Legislature to convene at 9 a.m. on Thursday, August 24, 2006, and deal primarily with a huge job-creating project in northwest Mississippi known as Riverbend Crossing.

“This enormous development will include unique, branded tourist attractions and convention facilities that will benefit not only northwest Mississippi but also the entire state,” Governor Barbour said. “The state is pleased to join with local governments in

DeSoto County in providing these modest incentives for the project to be located in our state.”

Governor Barbour said certain elements of the proposed Riverbend Crossing project, which includes a Metro-Goldwyn-Mayer Company (MGM) entertainment district, require legislative action before they can go forward. Riverbend is a 4,500-acre multi-phase master planned community that will consist of a blend of commercial, recreational, resort, tourism and residential development.

Developers have stated their intention to invest \$2.7 billion over 15 years. In the first phase, in return for state support, developers have committed a minimum capital investment of \$475 million and creation of a minimum of 3,500 new, full-time jobs.

Governor Barbour said he will ask the Legislature to approve \$23 million for public infrastructure – roads, water and sewer – to serve the project. He said he will also seek approval for a tourism sales tax rebate that is limited to 30 percent of capital expenditures for each eligible project investment for 10 years. This sales tax rebate will equal 80 percent of the sales tax collected from each eligible project under a total rebate ceiling of \$150 million for the Riverbend project.

The Governor’s proposal to the Legislature will include protections for the state’s interests and remedies if the developer fails to perform according to detailed terms being developed and signed before construction begins. For example, if projects do not meet investment requirements, they will not qualify for sales tax rebates.

The Governor said he is also working with the leadership of the House and Senate, including the Speaker and Lieutenant Governor and chairmen of the House Ways and Means Committee and Senate Finance Committee, on other issues that he may consider adding to the call if appropriate.